U.S. Department of Treasury
New Markets Tax Credit (NMTC) Program
Minority CDE Training & Technical Assistance
Contract # TFSACDF15C0004

TRAINING CURRICULUM

Module 3
Module #3

Strategic Planning for the CDE / Allocatee

Goal: Creating a business strategy that is consistent with the CDE mission.
The Purpose Driven CDE

- A Community Development Entity (CDE) is a domestic corporation or partnership that is an intermediary vehicle for the provision of loans, investments, or financial counseling in Low-Income Communities.

- To become certified as a CDE, an organization must submit a CDE Certification Application to the CDFI Fund for review. The application must demonstrate that the applicant meets each of the following requirements to become certified:
  - Be a legal entity at the time of application;
  - Have a primary mission of serving LICs; and
  - Maintain accountability to the residents of its targeted LICs.

https://www.cdfifund.gov/programs-training/certification/cde/Pages/default.aspx
The Purpose Driven CDE

Community Development Entities must use…

Substantially All of the proceeds from…

Qualified Equity Investments to make…

Qualified Low-Income Community Investments in…

Qualified Active Low-Income Community Businesses located in…

Low-Income Communities.
What Is My Story?

- What is unique about my CDE?
  - Relationships
  - Product/Service Niche
  - Familiarity with Area

- How can I uniquely or more effectively offer financial resources to my targeted communities?

  From This… …To This!
CDE Story

What do customers expect from the CDE?

- Financial Support – Gap Financing / Financing Terms not available through traditional financing sources
- Expertise – Utilizing / Combining specialty tax financing and other sources of capital
- Information – Knowledge of area dynamics, planned development, and regulatory and political considerations
- Performance – Timely and effective execution of contemplated financing
Who Are Key Stakeholders?

Key Stakeholders:

- Tax Payers – Ultimately bear the cost of the NMTC subsidy
- IRS – Issues Regulations and monitors compliance with the tax code (IRC)
- CDFI Fund – Certifies CDEs and awards tax credits through a competitive process
- Investors – Invest equity in the CDE in exchange for tax credits
- Leverage Lenders – are the primary economic investors
- CDE – Uses NMTC dollars to invest in LIC businesses
- QALICB – Utilizes NMTC dollars to finance gaps in funding community projects (“but for”).
- Low-Income Community – Ultimate beneficiary of NMTC proceeds
Who Are Key Stakeholders?

At the CDE Level

- Working with people and businesses with ties to the community.

- Local Alliances- coalitions and alliances with community members, developers, and local political leaders.

- QALICBs – Those currently capable, and those “capable of becoming capable” with appropriate capital.

- Community members that can contribute to success of the CDE, and therefore, to the success of the community.
Who Should be LIC Representatives?

- What advice/input do I need to make my CDE effective?
  - Community development master plan
  - Relationship with community “movers & shakers”

- How can my Advisory/Governing Board help me:
  - By identifying projects beneficial to the LIC and its residents?
  - By gaining LIC insights?
  - Through project feedback from community stakeholders?
  - Improving the capacity of my CDE with expertise?
What is the Risk?

- None or sparse allocations
  - Time and energy spent that don’t result in an allocation
  - Sparse allocation: inadequate, unsustainable revenue
- Loss of key personnel
- Failure to timely deploy
  - Pipeline changes, project unreadiness, other financing sources not ready/available
  - Leads to CDE default of Allocation Agreement;
  - Jeopardizes reputation in the industry with Investors, other CDEs & QALICBs
- Recapture – Discussed earlier in Module One
What Is the Reward?

**CHANGE**

- **in Financial Resources:** Debt & Equity
- **in Employment Status:** New/Quality Jobs
- **in Environment:** New/Renovated Buildings, Brownfields Remediated
- **in Communities:** Life – Thriving Business and Residential Activity
What Do I Need?

▪ What does success look like and how do I get there?
  • Business Strategy consistent with CDE’s past performance and capabilities
  • Appropriate product design – Traditional or Innovative
  • Capital Raising – Various sources
  • Balancing financial results and community outcomes
  • Administrative skills and capacity to underwrite, close, and monitor community development projects
  • Receive an NMTC Allocation – Write a successful NMTC application
▪ There could be other roles that you may consider in lieu of seeking an allocation
Defining Geographic Service Area

- What area have we served successfully in the past?
- Is that geography large enough to be NMTC viable?
  - Is there sufficient need for NMTC in the area?
  - Are there multiple projects needing NMTC financing?
  - Will the area support reinvestment, if necessary?
  - How does it fit into my organization’s current long term strategy?
- If not, what can we do to expand our service area and still be effective?
Defining CDE’s Financial Products

- Products that meet NMTC Program compliance
- Community relevance – Products appropriate for community needs
- Understanding NMTC complexity
- How do the proposed financial products match with track record in type, scale, volume?
- Managing revenue (fees) and competitiveness
Financial Products

- Debt – Contractual obligation to repay
- “Equity-like” Debt – e.g. Debt with Warrants
- Equity – “Patient Capital” – Distributions based upon profitability
- “Debt-like” Equity e.g. Preferred Equity; Preferred Equity Investments (PEI)
  - Sits Lower than Debt, Higher than Equity
  - No Maturity; No Dilution of Ownership, Payments are not required
  - PEIs typically earn a higher rate of return than debt, and may earn a share of cash flow. The preferred equity investor generally has consent over “major decisions”, may have buy-sell or put rights, and removal rights (remove the managing member or general partner).
Flexible or non-traditional features as part of the financial product:
- Below market interest rates (or rate of return in the case of Equity Investments)
- Lower than standard origination fees
- Longer than standard period of interest-only loan payments
- Higher than standard loan-to-value ratio
- Longer than standard amortization period
- More flexible borrower credit standards
- Non-traditional forms of collateral
- Lower than standard debt service coverage ratio
- Subordination
WIIFM? What is in it for Me?

- Change agent – creating positive community change
- Build relationships
- Build capacity
- What about income?
  - How much is too much?
  - How much is not enough?
Strategic Business Plan

- How am I Unique?
- What are my Strengths?
- Matching Community Needs with CDE Resources
- Pipeline – Creating & Prioritizing – LIC Representatives
- Community Outcomes – Differentiation
- Relevance – Multiple Services
- Sustainability - Multiple Streams of Income
Other NMTC Related Activities

- Leverage Lender in an NMTC transaction – Sufficient capital?
- Become an Investor in an NMTC transaction – Federal tax liability?
- Be a Secondary CDE in financing an NMTC project – Capability?
In Summary

- CDE Mission – must receive CDFI Fund certification
- My Story – How is my CDE Unique?
- What are my Strengths?
- Recognizing Key Stakeholders
- Key Risks
- Key Rewards
- Next Steps to Success
- Defining Financial Products
- Strategic Business Plan
- Other NMTC-Related Activity